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Amalta Oils & Minerals Limited 1980

Now Paracorp Limited

AMALTA OILS & MINERALS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1980

Name change

PRESIDENT'S MESSAGE TO THE SHAREHOLDERS

The Board of Directors of Amalta Oils & Minerals Limited will ask the shareholders at the Annual Meeting to consider a name change to Paracorp Limited.

The name change from Amalta Oils & Minerals Limited to Paracorp Limited will allow the company to place a growing emphasis on the financial services area where the major portion of the assets are concentrated.

It is, however, the intention of the company to remain in the oil and gas business. Oil and gas activity will centre in the subsidiary company, Aldona Mines Limited (No Personal Liability). Aldona's oil and gas operations will be strengthened by the sale of some oil and gas assets from Amalta Oils & Minerals to Aldona Mines.

Aldona will continue to participate in exploration in both Canada and the United States.

As part of the plan to develop the financial services area of the company, Amalta Oils & Minerals Limited in May 1981 acquired controlling interest in AMIC Mortgage Investment Corporation. AMIC is a mortgage investment corporation with assets of $40 million.

Paracorp will own:

(a) 62% of AMIC Mortgage Investment Corporation which has $40 million in total assets.

(b) 72% of Paramount Life Insurance Company Limited which has $40 million in total assets.

(c) 44% of Aldona Mines Limited (No Personal Liability) which has undiscounted assets of $12 million.

The balance of 1981 will be spent strengthening and developing the financial area.

September 8, 1981 KENNETH A. HUGHES

510, 1011 - 1st Street S.W. Calgary, Alberta T2R 1J2 (403) 265–7994

AMALTA OILS & MINERALS LIMITED

Clarkson Gordon

Chartered Accountants

1300 Iveagh House
Calgary, Canada T2P 3H6
(403) 268-4100

AUDITORS' REPORT

To the Shareholders of
Amalta Oils & Minerals Limited

We have examined the consolidated balance sheet of Amalta Oils & Minerals Limited as at December 31, 1980, and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Clarkson Gordon

Calgary, Canada
June 10, 1981

Chartered Accountants

AMALTA OILS & MINERALS LIMITED
(Incorporated under the laws of Alberta)

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1980
(with comparative figures as at December 31, 1979)

ASSETS

	1980	1979
CURRENT		
Cash and short term deposits	$ 591,374	$ 41,106
Accounts receivable	560,154	174,341
Provincial tax credits receivable	22,912	11,292
Refundable deposits	10,000	13,520
	1,184,440	240,259
INVESTMENTS		
Paramount Life Insurance Company (Note 2)	4,413,472	
Aldona Mines Limited (Note 3)	1,317,582	1,381,443
Non interest bearing advances	38,225	131,853
	5,769,279	1,513,296
FIXED (Note 4)		
Producing oil and gas properties including well development expenditures	593,505	519,751
Production and other equipment	222,657	305,677
	816,162	825,428
Less accumulated depletion and depreciation	246,075	379,282
	570,087	446,146
INCORPORATION AND REORGANIZATION COSTS	3,937	7,646
	$7,527,743	$2,207,347

LIABILITIES AND SHAREHOLDERS' EQUITY

	1980	1979
CURRENT		
Demand bank loan (Note 4)	$ 827,200	$1,300,000
Accounts payable and accrued charges	776,178	141,533
Income taxes payable	21,320	
	1,624,698	1,441,533
LONG TERM DEBT		
Due to shareholder, Hanen Investments Ltd. 12% convertible debenture (Note 5)		270,000
Non interest bearing advances	52,034	14,792
	52,034	284,792
PREPAYMENTS UNDER GAS SALES CONTRACTS	63,790	62,247
DEFERRED INCOME TAXES	205,000	
SHAREHOLDERS' EQUITY		
Capital (Notes 2 and 6)		
Authorized		
500,000 cumulative redeemable at par preferred shares of $10 par value each		
10,000,000 common shares of no par value		
Issued		
430,170 10% preferred shares (1979 - 40,330)	4,301,700	403,300
4,723,405 common shares (1979 - 2,327,905)	1,492,670	803,570
	5,794,370	1,206,870
Deficit	(212,149)	(788,095)
	5,582,221	418,775
CONTINGENT LIABILITY (Note 9)		
	$7,527,743	$2,207,347

On behalf of the Board:

Director

Director

See accompanying notes

AMALTA OILS & MINERALS LIMITED

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1980
(with comparative figures for the ten months ended December 31, 1979)

	1980	1979
Income		
Oil and gas sales	$ 586,395	$ 299,950
Less royalties	154,954	66,267
	431,441	233,683
Interest	27,295	32,983
	458,736	266,666
Expenses		
Operating	73,321	69,433
General and administrative	244,108	104,382
Interest - long term debt	29,700	27,000
- other	190,676	111,112
Dry holes and property abandonments	42,477	30,000
Depletion and depreciation	66,164	26,394
Amortization	3,709	2,809
	650,155	371,130
Operating loss	(191,419)	(104,464)
Loss on investment	(60,512)	
Gain on sale of fixed assets	1,018,500	
Income (loss) before income taxes and other items	766,569	(104,464)
Income taxes (Note 7)		
Current	40,000	
Deferred	335,000	
Provincial tax credits	(22,912)	(11,292)
	352,088	(11,292)
Income (loss) before other items	414,481	(93,172)
Equity in net income of subsidiary and affiliate (Notes 2 and 3)	61,181	4,735
Income (loss) before extraordinary item	475,662	(88,437)
Extraordinary item		
Income tax reduction realized as a result of utilization of prior years' unrecorded deferred income tax benefits and losses	148,680	
Net income (loss) for the period (Note 8)	$ 624,342	$ (88,437)

See accompanying notes

AMALTA OILS & MINERALS LIMITED

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1980
(with comparative figures for the ten months ended December 31, 1979)

	1980	1979
Deficit, beginning of period	$788,095	$699,658
Net (income) loss for the period	(624,342)	88,437
	163,753	788,095
Preferred share dividend	48,396	
Deficit, end of period	$212,149	$788,095

See accompanying notes

AMALTA OILS & MINERALS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1980
(with comparative figures for the ten months ended December 31, 1979)

	1980	1979
Source of working capital		
Proceeds from sale of fixed assets	$1,100,000	
Issue of common shares for cash	330,000	$ 25,000
Advances	70,358	289,344
Prepayments under gas sales contracts	1,543	62,247
Conversion of debenture (Note 5)	89,100	
Total source of working capital	1,591,001	376,591
Application of working capital		
Loss (income) before other items	(414,481)	93,172
Add (deduct) items not affecting working capital		
Depletion and depreciation	(66,164)	(26,394)
Amortization	(3,709)	(2,809)
Deferred income taxes	(335,000)	
Property abandonments		(30,000)
Loss on investment	(60,512)	
Gain on sale of fixed assets	1,018,500	
Income tax reduction realized on utilization of prior years' losses	(18,680)	
Funds used in operations	119,954	33,969
Investments (Notes 2 and 3)		
Net non current investment in subsidiary Paramount Life Insurance Company	4,202,027	
Less issue of preferred shares	4,180,000	
	22,027	
Aldona Mines Limited	86,403	1,376,708
Other		3,443
	108,430	1,380,151
Other applications		
Acquisition of properties, equipment and expenditures thereon	271,605	356,074
Preferred share dividend	48,396	
Redemption of preferred shares	281,600	
	601,601	356,074
Total application of working capital	829,985	1,770,194
Increase (decrease) in working capital	761,016	(1,393,603)
Working capital (deficiency), beginning of period	(1,201,274)	192,329
Working capital (deficiency), end of period	$ (440,258)	$(1,201,274)

See accompanying notes

AMALTA OILS & MINERALS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1980

1. Significant accounting policies

The consolidated financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles applied on a basis consistent with that of the previous year and within the framework of the accounting policies summarized below.

a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary B.W.H. Holdings Ltd.

b) Investments

The Company's investments consist of a 70.7% interest in its subsidiary, Paramount Life Insurance Company, and a 44% interest in its affiliate, Aldona Mines Limited. The Company's investment in Aldona Mines Limited is accounted for on the equity basis whereby the Company's share of net income of the affiliate is included in income. The Company accounts for its investment in Paramount Life Insurance Company using a modified equity method since Paramount Life prepares financial statements in accordance with practices as prescribed or permitted by the Department of Insurance of Alberta which differ from generally accepted accounting principles.

c) Fixed assets

Exploration expenditures, including geological and geophysical costs, annual acreage rentals and dry hole costs are charged to expense. The initial acquisition costs of oil and gas properties together with the costs of drilling and equipping successful wells are capitalized. When unproven acreage is surrendered, the costs are charged against income in the year of abandonment.

1. Significant accounting policies (continued)

d) Depletion and depreciation

Capitalized costs of producing oil and gas properties including well development expenditures are charged against income on the unit of production method based on estimated proved reserves.

Production and other equipment is depreciated on the declining balance method at rates of 30% and 20% respectively, which rates are designed to amortize the cost of the assets over their estimated useful lives.

e) Incorporation and reorganization costs

Incorporation and reorganization costs are being amortized on a straight-line basis over a period of five years to 1982.

f) Income taxes

The Company follows the practice of interperiod tax allocation with respect to all significant timing differences.

g) Net income per share

i) Basic

Basic net income (loss) per share is based on net income (loss) for the period reduced by both declared and undeclared cumulative preferred share dividends using the weighted average number of common shares outstanding during the period.

ii) Adjusted basic

Adjusted basic net income per share is based on net income as calculated for basic net income per share increased by the amount of interest expensed during the year, after income taxes, on the conversion of the debenture, using the weighted average number of common shares outstanding during the period determined as though the debenture conversion had taken place at January 1, 1980.

1. Significant accounting policies (continued)

iii) Fully diluted

Fully diluted net income per share is based on net income as calculated for adjusted basic net income per share increased by imputed earnings, after income taxes, on the cash which would have been received on the exercise of options and warrants at an appropriate rate of return, using the total common shares issued at December 31, 1980 increased by the number of common shares that would be issued on the exercise of the outstanding options and warrants.

2. Investment in Paramount Life Insurance Company

During 1980 the Company acquired 221,700 (70.7%) common shares of Paramount Life Insurance Company for an aggregate cost of $4,202,027. The Company purchased 220,000 of these common shares, effective August 1, 1980, from a shareholder, Hanen Investments Ltd. In consideration for the purchase of those shares the Company issued to Hanen Investments Ltd. 418,000 10% cumulative redeemable preferred shares of $10 par value each ($4,180,000). These preferred shares have warrants attached to purchase 900,000 common shares of the Company at a purchase price of $1.50 each, with 225,000 of these warrants exercisable on or before August 31 in each of the years 1981 to 1984. The balance of the shares (1,700) were purchased from third parties for an aggregate cash consideration of $22,027.

The excess of the purchase price over the fair value of Paramount Life at the date of acquisition, representing goodwill, amounted to $2,727,172 and is being amortized against income over 40 years. At December 31, 1980 the unamortized portion of the excess amounted to $2,699,172 after providing for amortization in the current period of $28,000.

2. Investment in Paramount Life Insurance Company (continued)

a) Details of the investment in Paramount Life are as follows:

Number of common shares (70.7% interest)	221,700
Carrying value	
Shares at cost	$4,202,027
Equity in undistributed net income from date of acquisition	239,445
Amortization of goodwill	(28,000)
	211,445
	$4,413,472
Quoted market value (which is not necessarily indicative of realizable value)	$2,327,850

b) Summarized financial information for Paramount Life is as follows:

i) Financial position

	December 31	
	1980	1979
	(thousands of dollars)	
Assets:		
Stocks and bonds		
with quoted market value of $13,483 (1979 - $10,364)	$15,006	$11,046
with no quoted market value	1,659	3,254
	16,665	14,300
Real estate and mortgage investments	14,415	7,379
Other investments	2,413	3,546
Segregated funds - at market	5,912	4,779
	$39,405	$30,004
Liabilities:		
Actuarial liabilities	$25,243	$20,668
Other liabilities	5,826	2,838
Shareholders' equity	2,424	1,719
Segregated funds	5,912	4,779
	$39,405	$30,004

ii) Results of operations

Premium and investment income	$9,872	$15,696
Less increase in actuarial liabilities	4,575	10,705
	5,297	4,991
Expenses	4,994	4,996
Net income (loss)	$ 303	$ (5)

2. Investment in Paramount Life Insurance Company (continued)

iii) Retained earnings (deficit)

Balance, beginning of year	$(420)	$ 809
Add (deduct)		
Net income (loss)	303	(5)
Dividends		(25)
Allowance for recovery of (decline in) value of investments	402	(1,199)
Balance, end of year	$ 285	$ (420)

iv) Accounting practices

The accounting practices followed by Paramount Life are as prescribed or permitted by the Department of Insurance of Alberta. These practices differ in some respects from generally accepted accounting principles followed by most other business enterprises in determining financial position and results of operations. Such differences include (a) charging new policy acquisition costs against earnings in the year incurred rather than amortizing them against the related premium income over the expected policy life, (b) excluding non-admitted assets from financial statements, (c) providing for the decline in and recovery of the carrying value of investments through retained earnings, and (d) providing for income taxes on the taxes payable method. The aggregate effect of such differences on the statutory financial statements of Paramount Life is not reasonably determinable at this time.

c) Amalta's share of net income

The Company's share of net income of Paramount Life from the effective date of acquisition on August 1, 1980 using a modified equity basis, whereby no adjustments have been made to the reported net income to give effect to the application of generally accepted

2. Investment in Paramount Life Insurance Company (continued)

accounting principles, is summarized as follows:

Paramount Life	
Net income for the year	$303,095
Add amounts credited to retained earnings subsequent to effective date of acquisition as explained in paragraph (iv) above	213,223
Adjusted net income	$516,318
Amalta's share of net income of Paramount Life from effective date of acquisition	
Net income	$ 89,216
Amounts credited to retained earnings	150,229
	$239,445

3. Investment in Aldona Mines Limited

Details of the investment in Aldona Mines are as follows:

	1980	1979
Number of common shares (44% interest)	868,545	868,545
Carrying value		
Shares at cost	$1,376,708	$1,376,708
Equity in undistributed net income (loss) from date of acquisition	(68,217)	32,868
Amortization of purchase discrepancy	(77,312)	(28,133)
	(145,529)	4,735
Advances	86,403	
	$1,317,582	$1,381,443
Quoted market value (which is not necessarily indicative of realizable value)	$ 911,972	$ 955,400

The excess of the purchase price over the book value of Aldona Mines at the date of acquisition on June 1, 1979 amounted to $1,040,633. This excess is attributable to the value of the properties held by Aldona Mines and is being amortized against income in accordance with the Company's accounting policy for properties as described in Note 1. At December 31, 1980 the unamortized portion of the excess amounted to $963,321 after

3. Investment in Aldona Mines Limited (continued)

providing amortization in the current period of $49,179 (1979 - $28,133) and $77,312 to date.

The Company is obligated to make an offering to purchase an additional 300,000 shares of Aldona Mines from the public at a price of $1.55 per share. If this offering is accepted, the Company will hold a 59% interest in Aldona Mines.

Advances to Aldona Mines bear interest at 14% per annum and have no specified terms of repayment.

4. Demand bank loan

The 868,545 common shares of Aldona Mines Limited, and the Company's working interest in and production revenue from certain producing oil and gas properties, have been pledged as collateral security for the demand bank loan which bears interest at bank prime rate plus 1 1/2%.

5. Long term debt

The 12% debenture in the amount of $270,000 payable to Hanen Investments Ltd. plus accrued interest of $89,100 at December 1, 1980 were converted into 1,795,500 common shares of the Company as at that date at the rate of 1 share for each $.20 of indebtedness.

6. Capital

During the year the Company undertook the following share capital transactions:

i) Common shares

	Shares	Amount
Balance, December 31, 1979	2,327,905	$ 803,570
Options exercised August 1, 1980 for cash	100,000	80,000
Warrants exercised August 1, 1980 for cash	500,000	250,000
Conversion of 12% debenture plus accrued interest	1,795,500	359,100
Balance, December 31, 1980	4,723,405	$1,492,670

ii) Preferred shares

	Shares	Amount
Balance, December 31, 1979	40,330	$ 403,300
Redeemed August 1, 1980 for cash	(28,160)	(281,600)
Issued August 1, 1980 in consideration for the investment in Paramount Life Insurance Company	418,000	4,180,000
Balance, December 31, 1980	430,170	$4,301,700

On July 25, 1980 the Company granted options to management to acquire 100,000 common shares of the Company exercisable at a price of $1.40 per share on or before August 31, 1981.

On August 1, 1980 the directors declared a preferred share dividend of $1.20 per share ($48,396) and thereafter called for redemption of 28,160 of such outstanding shares. In addition, the cumulative dividend rate on the outstanding preferred shares was increased to 10% from the previous rate of 9%.

The preferred shares issued in connection with the acquisition of Paramount Life Insurance Company have warrants attached to purchase 900,000 common shares of the Company at a purchase price of $1.50 each,

6. Capital (continued)

with 225,000 of these warrants exercisable on or before August 31 in each of the years 1981 to 1984.

7. Income taxes

The following schedule illustrates the principal differences between expected taxes using statutory rates and income tax expense reflected in the consolidated statement of income.

Income before income taxes	$766,569	
	Amount	%
Tax at statutory rates	$374,086	48.8%
Add (deduct) the tax effect of the following:		
Non deductible crown royalties	38,174	5.0
Resource allowance to partially offset non deductible royalties	(31,587)	(4.1)
Depletion allowance earned by exploration and development expenditures	(28,219)	(3.7)
Provincial rebates	(6,204)	(0.8)
Loss on investment	29,530	3.8
Other	(780)	(0.1)
Income tax expense	$375,000	48.9%

8. Net income per share

	1980	1979
a) Basic net income (loss) per share		
Before extraordinary item	$.091	$(0.051)
Extraordinary item	.055	
Basic net income (loss) per share	$.146	$(0.051)
b) Adjusted basic net income per share		
Before extraordinary item	$.060	
Extraordinary item	.034	
Adjusted basic net income per share	$.094	
c) Fully diluted net income per share		
Before extraordinary item	$.060	
Extraordinary item	.029	
Fully diluted net income per share	$.089	